



The Conference Board

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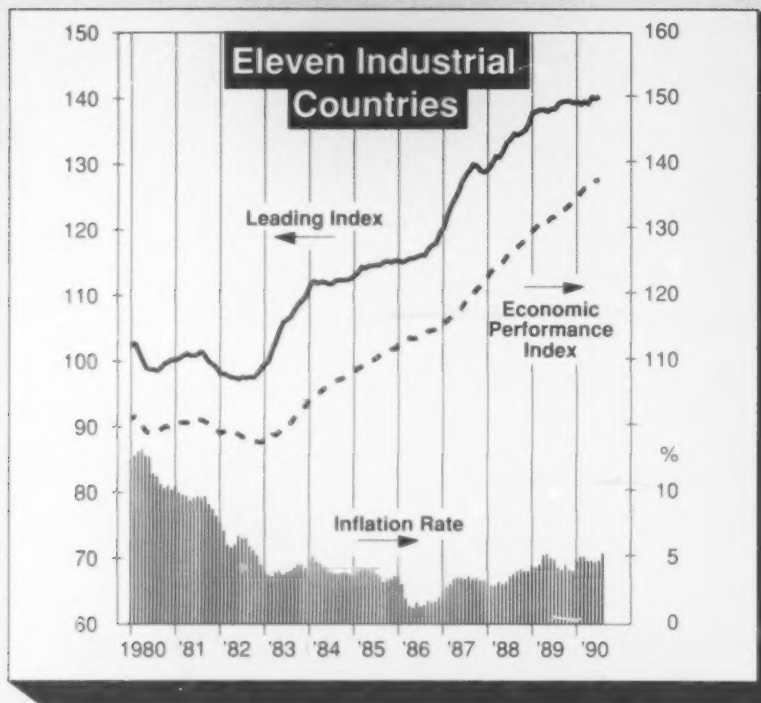
October 1990

International Economic Scoreboard

INSIDE:

- **New — Inflation Rates for all
Countries — Not Pleasant Reading**
- **Subsidence in Leading Indicators
Spreads Around the World**
- **Weakness Most Virulent in
English-Speaking Countries**

World Business Cycle



Summary of Growth Rates, Eleven Industrial Countries

Ten-year Growth Rate		Indexes of Economic Performance Growth Rates *			Leading Business Cycle Indexes Growth Rates *			Current Reading on the Cycle	Latest Month Covered
		6 mos. ago	3 mos. ago	Latest month	6 mos. ago	3 mos. ago	Latest month		
1976-86		annual rates, percent							
Eleven countries	3	4	4	4	1	0	1	Expansion continuing, leaders weak	July
Ten countries (U.S. excl.)	3	7	7	6	2	2	1	Expansion continuing, leaders weak	July
North America (2)	3	0	1	1	-1	-2	1	Expansion stopped, leaders weak	July
Europe (4)	2	7	6	6	0	1	2	Expansion continuing	July
Pacific Region (5)	4	7	8	7	5	3	2	Expansion continuing	July
United States	3	1	1	0	-2	0	-1	Expansion stopped, leaders weak	Aug.
Canada	3	2	2	1	-2	-5	-3	Expansion stopped, leaders weak	July
Germany	2	8	7	7	5	3	3	Expansion continuing	Aug./July
France	2	8	8	7	-3	1	0	Expansion continuing, leaders weak	July/Aug.
United Kingdom	2	4	4	2	-1	-1	-3	Expansion continuing, leaders weak	Aug.
Italy	2	6	6	5	-3	0	0	Expansion continuing, leaders weak	May/June
Japan	4	8	9	8	6	4	2	Expansion continuing, leaders weak	July
Australia	3	4	0	-6	-4	-4	-3	Expansion stopped, leaders weak	Aug.
Taiwan, R.O.C.	6	3	2	-1	15	3	-3	Expansion stopped, leaders weak	Aug.
Korea, R.O.K.	7	15	7	7	10	4	1	Expansion continuing, leaders weak	Aug.
New Zealand	2	2	1	0	2	-2	-1	Upturn stopped, leaders weak	July

* Ratio of current month's index over the preceding 12 months, expressed as a compound annual rate.

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Overview

Stagflation

If "stagflation" is defined as stagnation in economic activity coupled with inflation, then it surely is the appropriate term for the present world economy. Although global economic activity continues to climb moderately, the composite leading index for these eleven industrial countries has been flat for almost a year. And inflation, reflecting a new surge of pressure from petroleum, is accelerating almost everywhere. It's a gloomy pattern.

The surge of oil prices is, presumably, a one-time event, and with varying degrees of cyclical weakness prevailing through most of the industrial world, the oil-price increases should not get built into the ongoing inflation rate in a lasting way. Consequently, before too long the inflation pattern should turn itself around: Instead of a worsening of inflation, we should see an improvement.

Summary of Inflation Rates, Eleven Industrial Countries

	Ten-year Inflation Rate 1979-89	6 mos. * ago	3 mos. * ag	Latest month *	Current Reading on Inflation	Latest Month Covered
		annual rates, percent				
Eleven countries	5.3	5.1	4.8	5.4	Rising	Aug.
Ten countries (U.S. excl.)	5.2	4.5	4.8	5.0	Rising	Aug.
North America (2)	5.6	5.5	4.6	5.8	Rising	Aug.
Europe (4)	6.6	4.8	5.4	5.9	Rising	Aug.
Pacific Region (5)	3.4	4.0	4.2	3.9	Steady	Aug.
United States	5.5	5.6	5.1	6.4	Rising	Sept.
Canada	6.5	5.4	3.8	3.7	Falling	Aug.
Germany	2.9	2.7	2.1	3.3	Rising	Sept.
France	7.3	3.3	3.0	3.6	Rising	Aug.
United Kingdom	7.3	7.6	11.4	11.5	High and Rising	Aug.
Italy	11.2	5.8	5.5	6.4	Rising	Sept.
Japan	2.5	2.9	2.2	4.3	Rising	Sept.
Australia	8.4	8.2	7.7	7.4	High and Volatile	May
Taiwan, R.O.C.	4.4	2.1	5.4	5.4	Falling	Aug.
Korea, R.O.K.	8.1	6.5	11.0	9.8	High but Falling	Aug.
New Zealand	11.8	5.9	6.4	5.4	Rising	Aug.

* Ratio of current month's index over the preceding 12 months, expressed as a compound annual rate.

Implications of an International Recession

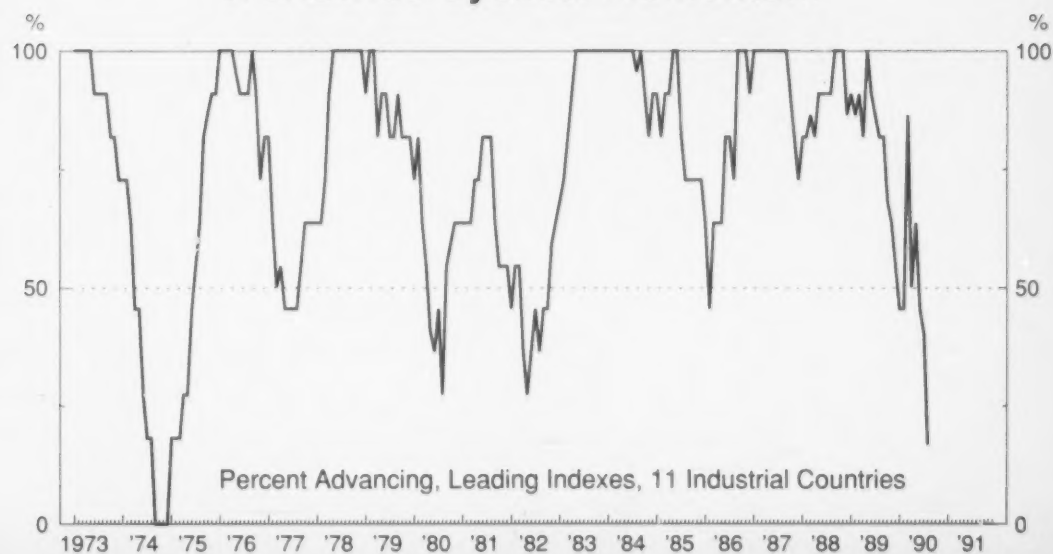
One of the factors that distinguishes recessions from mere slowdowns and severe recessions from more moderate versions is the tendency for serious recessions to be international in scope. In the present case, declines in overall economic activity are becoming widespread internationally. As the chart shows, in August and September the percentage of rising leading indexes among the eleven nations covered in this publication has fallen well below 50 percent for the first time since 1982.

Every recession in the U.S. Economy since 1956 has become international in scope, though to a lesser degree in the mild recessions of 1960-61, 1969-70, and 1980. If we measure the severity of recessions by the percentage decline in real GNP, we find a close relation between the international scope of recessions and their severity in the United States.

The latest plot on this chart is based on preliminary data, but preliminary indications for later months, which include the effects of the Persian Gulf crisis, strongly suggest that this international cycle will be at least average in scope and severity.

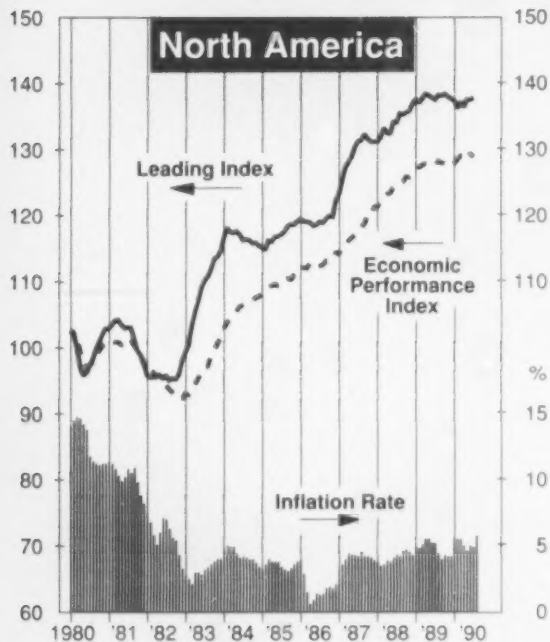
A widespread international recession has depressing implications for U.S. exports. In each of the three mild recessions since 1957 the growth of exports of goods and services slowed to one or two percent on a year-over-year basis. In each of the three sharp recessions the volume of exports declined, on average, by eight percent. The recent decline in the dollar exchange rate may alleviate the situation somewhat, but reversing the effect of an international recession is no small task.

Worldwide Cyclical Momentum



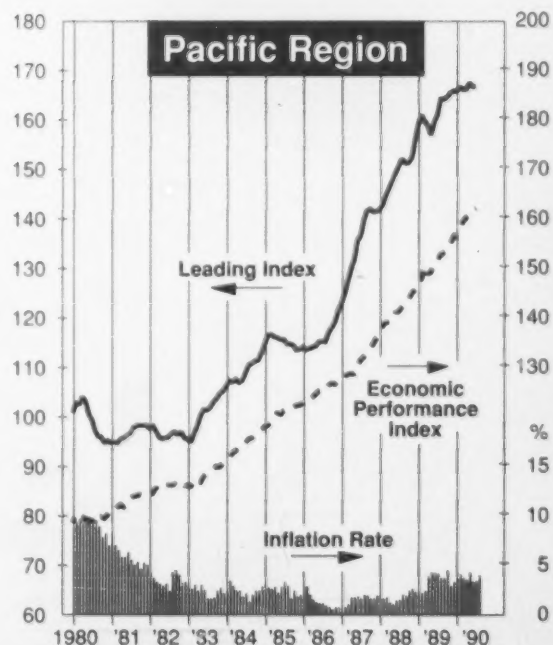
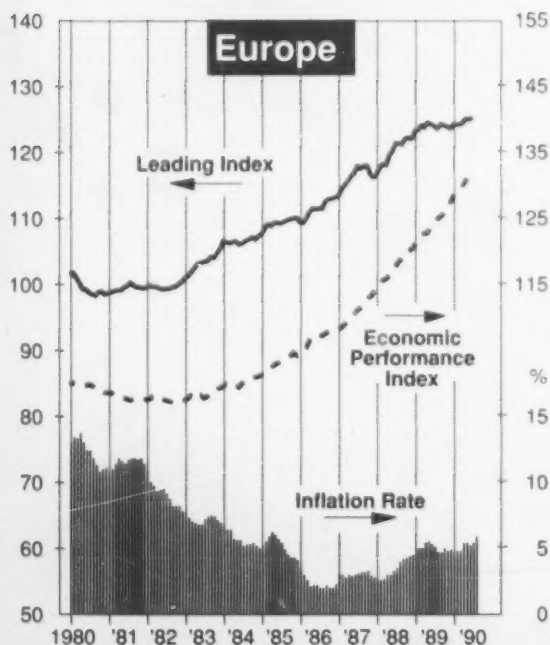
Regions

North America shows the greatest cyclical weakness: The recession-warning lights are shining bright red in Canada and flickering in the United States. Inflation showed a big jump recently in the U.S., but not yet in Canada.

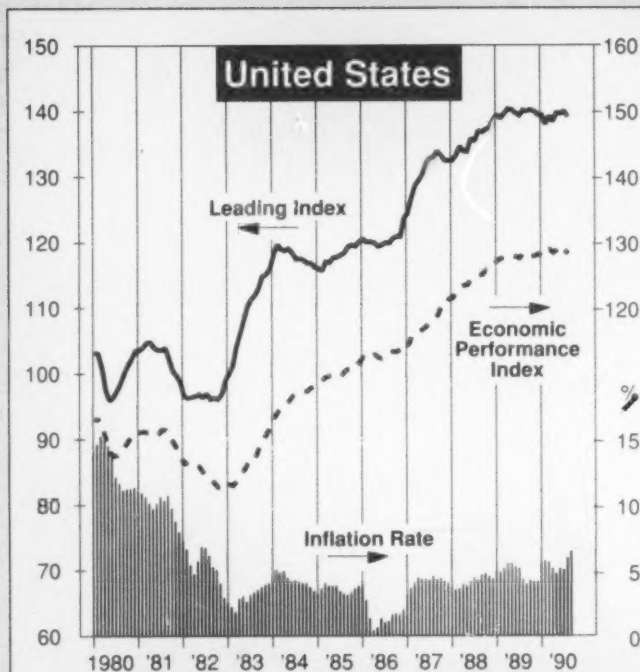


In the rest of the world, the risk of recession seems highest in the other English-speaking countries: Australia, with its performance index down 3 percent in July and August, following more than a year of decline in its leading index, is the most prominent case. New Zealand and the United Kingdom also have indexes that are lifeless or declining. The one non-English-speaking country showing similar weakness is Taiwan. Elsewhere, the long cyclical expansion continues, although the leading indexes (except in Germany) are torpid.

Inflation is accelerating in North America and Europe. In the Pacific Region, however, a falling rate in Australia and New Zealand is offsetting increases in Japan and Taiwan.



Countries

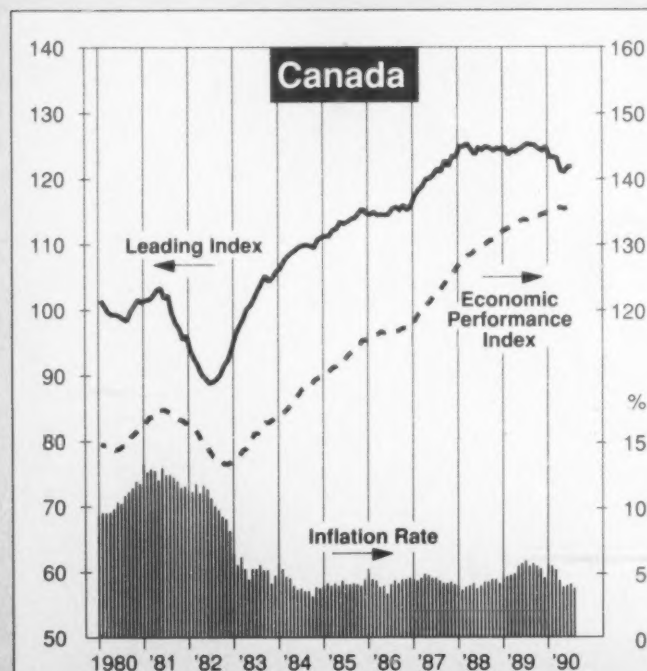


Sluggish or Worse

Both U.S. business-cycle indexes declined a point in August. Both have been stuck around their present levels for a year and a half now, pointing to more dull, sluggish economic performance in the period ahead.

Since the new spurt of oil prices hit in August, however, a sluggish economy is about the best that can be expected. Most early-warning indicators for September and October—those available to date, especially stock prices and consumer sentiment—are signaling more pronounced weakness ahead. They are, in other words, hinting not just at a flat trend but a recession.

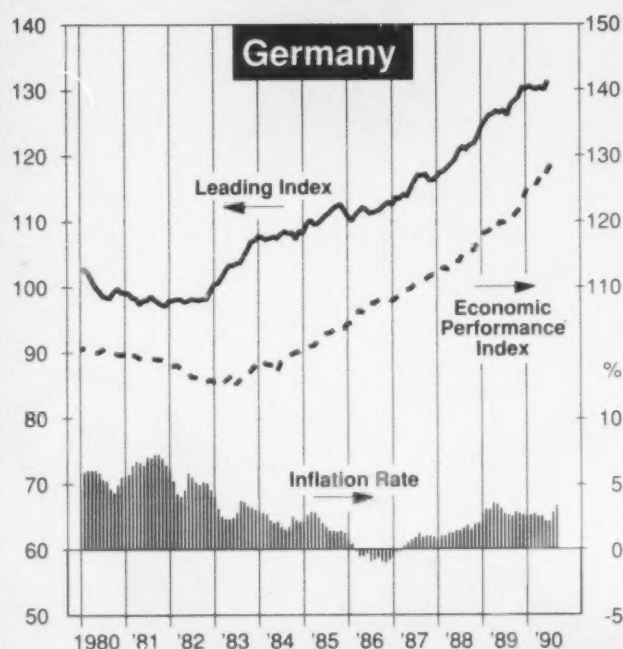
The oil hike has added a bubble to the inflation rate, but with the economic expansion lacking stamina the acceleration should be short lived.



Recession or Close

The Canadian leading index has been declining for a year, although very gradually, and the country has probably been in or on the border of a recession for a few months now. Because petroleum extraction is so important to Canada, the economy will benefit from the additional income and increased drilling activity that higher oil prices bring, but this stimulus will be fully offset by the loss of demand from consumers and non-oil business firms.

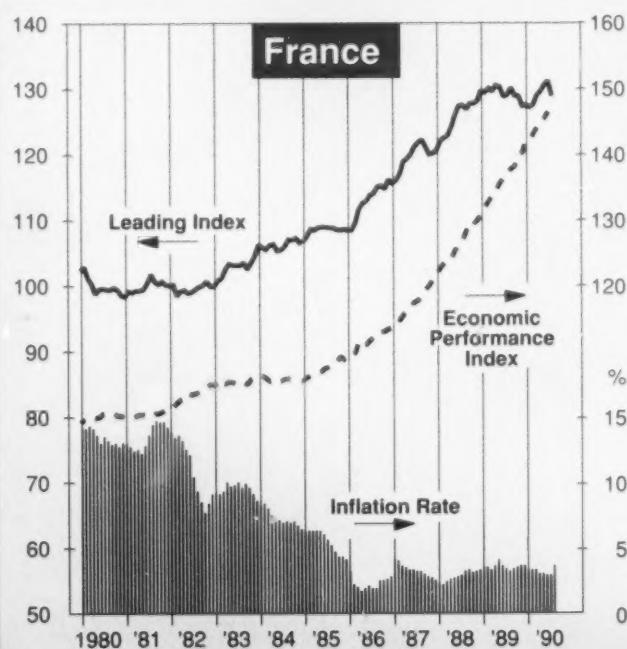
The inflation rate has been steady or falling because of the weak economy, but will get a temporary boost when the price indexes catch up with the oil-price increase.



Good Times Ending?

The German indexes continue moderately favorable through July. The economic performance index is climbing sturdily, and the leading index keeps inching ahead. The subsequent severe decline in stock prices, however, tells us that many think the good times are over.

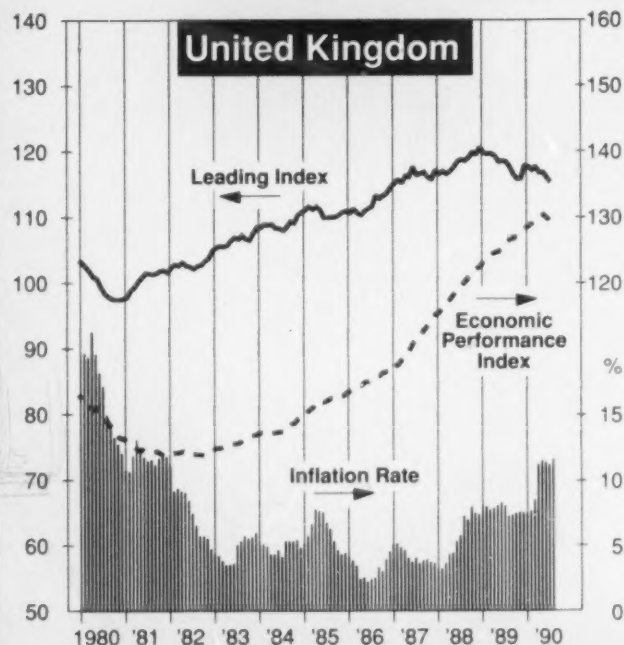
Inflation, though still very modest by world standards, is now showing the effect of escalating oil prices.



Optimism Scarce

Through the latest readings, the French economy, like Germany, continues to expand briskly. But unlike Germany, the leading index has not improved for more than a year and a half. Between that evidence and what's happened to oil prices, it's difficult to find optimists about the direction of the French business cycle.

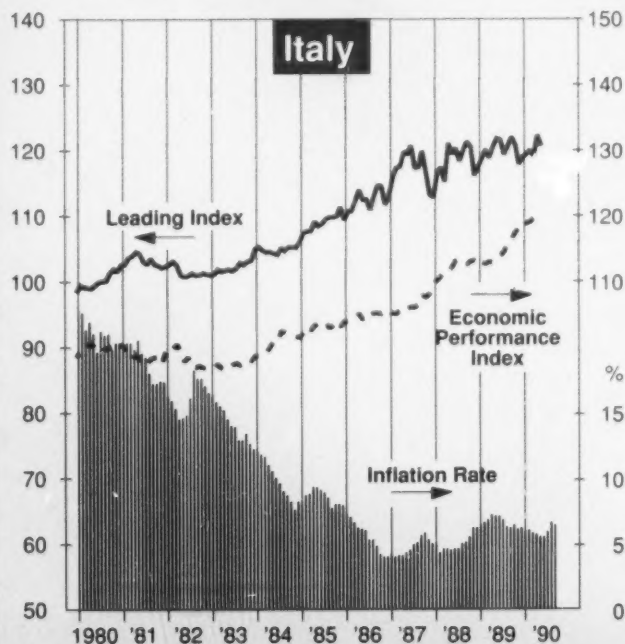
Inflation is accelerating moderately, and more can be expected as the hike in oil-prices works its way through the economy.



Discouraging Numbers

The U.K. performance index started down at mid-year the leading index has been declining slowly for 18 months. It's a discouraging set of numbers all around, to which the unfavorable implications of higher oil prices must be added.

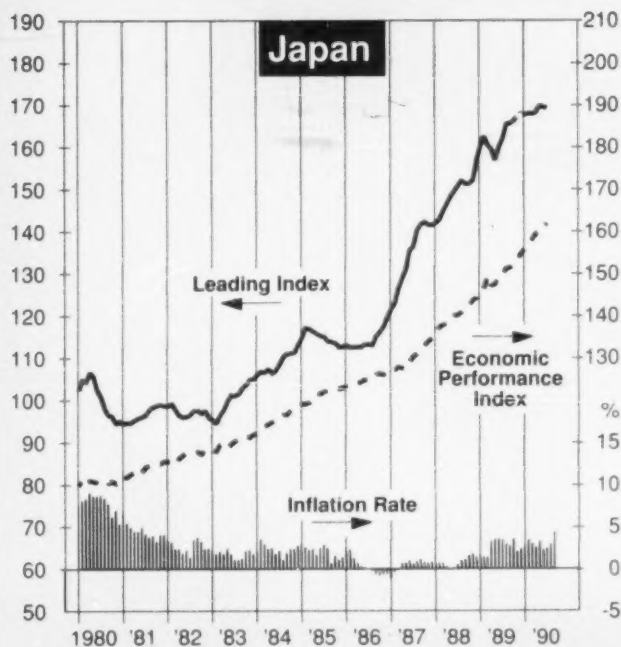
The U.K. inflation rate is the worst of these eleven industrial economies--the only one at double digit rates-- and has increased substantially over the past half year.



Sour Stock Market

The Italian indexes are very much like the French, with economic activity still expanding pretty nicely but the leading index unchanged for more than a year. As usual the data are late, but the one series available through September, common stock prices, is as sour for Italy as everywhere else.

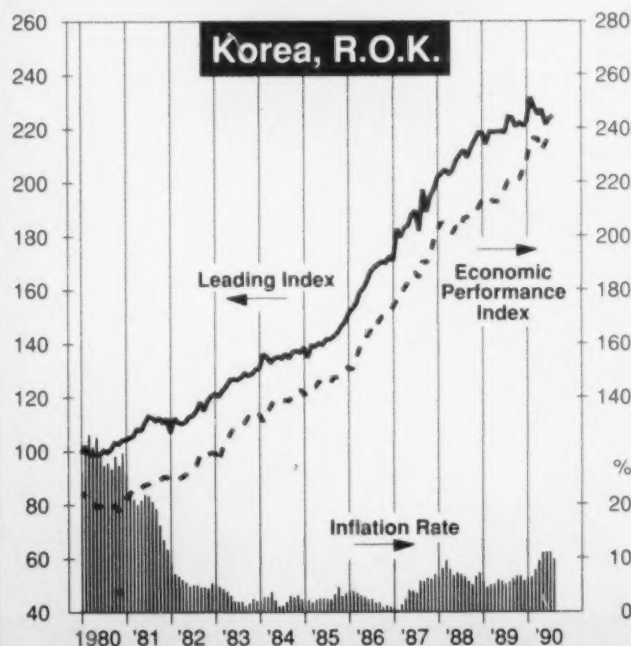
The Italian price index, however, is up to date, and it, too, tells the unhappy story of accelerating inflation.



Gloomy Signals

The cyclical story for Japan is better than most—or at least that was true through July. The performance index continued to climb robustly and the leading index slowly. Since then the stock market—here as everywhere—has been sending out gloomy signals.

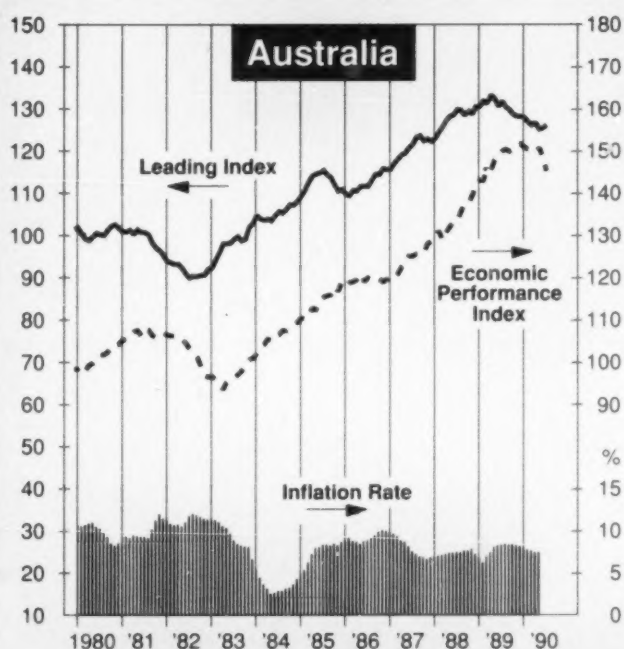
Japanese inflation, under good control until recently, is now heading higher. Oil prices are the main culprit, of course.



Spasmodic Evidence

The Korean economy faltered this past spring, but over the summer recovered the lost ground. The leading index, however, has leveled off this year, suggesting that economic expansion will not soon return to its usual vigorous pace.

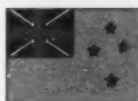
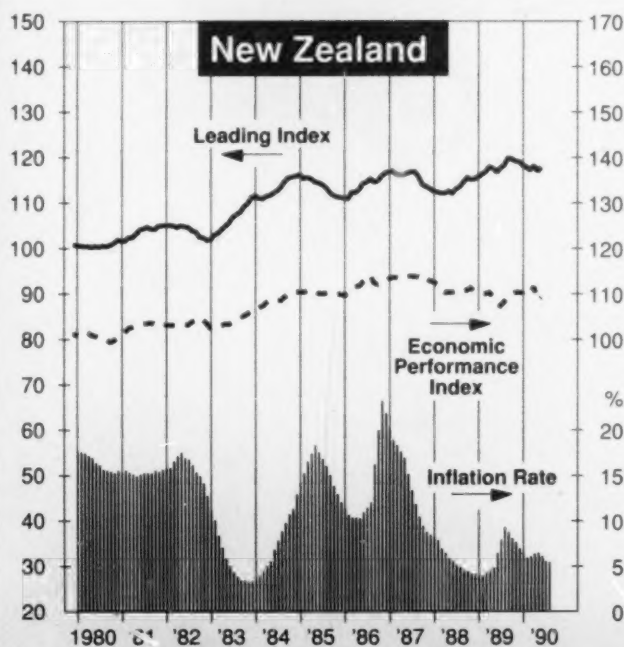
The Korean inflation rate is high, but has been bouncing around oddly this year, so that it's difficult to understand its direction.



More Distress Ahead

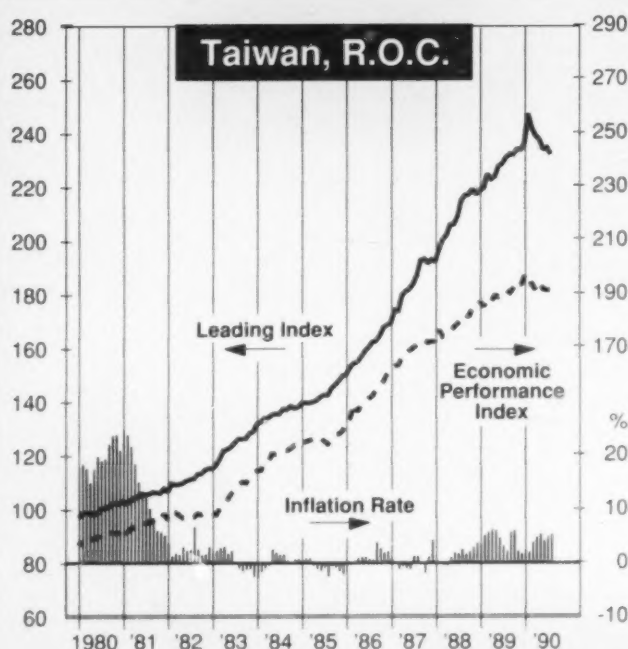
In Australia, production, retail sales and unemployment all fell sharply in July and August. The leading index recovered a point in August, but its previous decline—6 percent over 14 months—suggests that further economic distress lies ahead.

The economic weakness has one recompense, however: The rate of inflation has subsided a little.



Bumping Along

The Kiwi economy continues to bump along at an unsatisfactory level, not weakening further but without signs of recovery either. The inflation rate has been falling slightly.



Sagging Statistics

Taiwan's economy has been flat to slightly down all year. Since the spring, furthermore, the leading index has sagged noticeably, suggesting that the cyclical weakness has not yet run its course.

Despite the soft economy, price inflation has accelerated over the past half year.

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This publication is designed to help readers monitor the ups and downs of the business cycle around the world. To this end, three statistical series are shown for each country. One is the inflation rate, calculated from the consumer price index compiled by the official statistical agency. The other two are cyclical indexes—an index of economic performance and a leading index. All of the cyclical indexes are based on 1980=100. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call “coincident” series, because they define the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too—typically after three or four months. When the leading index begins to rise more slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see Phillip A. Klein and Geoffrey H. Moore, *Monitoring Growth Cycles in Market-Oriented Countries*, Ballinger Publishing Co. 1985.) Considerable variation in the length of the lead is to be expected, however. Constant monitoring is needed to make effective use of the system and to get early warnings of recessions and recoveries, changes in foreign trade flows, and new inflationary trends.

The indexes were developed by Geoffrey H. Moore and Philip A. Klein, and are maintained by the Center for International Business Cycle Research at the Columbia Business School. (The U.S. indexes used here differ slightly from the indexes reported monthly by the U.S. Department of Commerce.) To facilitate analysis the indexes are adjusted so their long-run growth rates, are equal to those in real GNP in the country concerned. Growth rates are shown in the first column of the table on page 2.

David Chon, Editor

For more information:

For more about this indicator system and the availability of detailed data for each country please address inquiries to: Center for International Business Cycle Research Columbia Business School, New York, NY 10027 - Telephone: 212-280-2916.

INDEXES, WORLDWIDE AND BY REGION, 1989-90

		11 Countries		10 Countries excl. U.S.		North America (2)		Europe (4)		Pacific Region (5)				11 Countries		10 Countries excl. U.S.		North America (2)		Europe (4)		Pacific Region (5)			
		Indexes, 1980=100										Growth Rates, Percent													
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.		
Apr.	89	131	138	133	137	128	139	123	124	150	160	5	5	6	5	4	4	6	4	6	7				
May	89	131	138	134	137	128	139	123	125	150	158	4	3	5	3	3	3	5	4	6	3				
June	89	132	138	135	138	128	138	124	125	152	160	4	3	6	4	2	2	6	3	7	6				
July	89	132	138	135	138	128	138	124	124	152	162	4	3	6	4	2	1	5	2	7	6				
Aug.	89	133	139	136	139	129	139	125	124	154	165	5	3	6	4	2	2	6	1	7	9				
Sept.	89	133	140	136	139	128	139	126	125	154	165	4	3	6	4	1	1	5	2	7	8				
Oct.	89	133	140	137	139	128	139	126	125	154	165	4	3	5	3	1	1	5	1	8	7				
Nov.	89	134	140	138	139	128	138	127	124	156	166	4	2	6	3	1	1	6	1	7	7				
Dec.	89	134	139	139	139	129	138	128	124	157	166	4	1	6	2	1	0	6	0	7	6				
Jan.	90	135	140	140	140	128	138	123	125	158	166	4	1	7	2	0	-1	7	0	7	5				
Feb.	90	136	139	140	140	129	137	130	125	159	167	4	0	7	2	1	-2	7	0	7	5				
Mar.	90	136	140	141	140	129	138	130	125	160	167	5	1	7	2	1	-1	7	0	8	4				
Apr.	90	136	139	142	140	129	137	130	125	161	167	4	0	7	2	1	-2	6	1	8	3				
May	90	137	140	142	141	129	138	131	126	161	168	4	2	6	2	1	0	6	2	7	4				
June	90	138	140	143	140	130	138	132	126	162	168	4	1	6	2	2	0	6		7	3				
July	90	138	140	143	140	129	138	132	126	163	167	4	1	6	1	1	1	6	2	7	2				
														Ten Year Annual Growth Rate, Percent											
														3	3	3	3	3	3	2	2	4	4		

INDEXES, ELEVEN COUNTRIES, 1989-90

		U.S.		Canada		West Germany		France		U.K.		Italy		Japan		Australia		Taiwan, R.O.C.		Korea, R.O.K.		New Zealand	
		Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead
Indexes, 1980 = 100																							
Apr.	89	128	140	133	124	119	126	134	130	124	120	113	119	146	159	145	131	187	223	212	218	110	118
May	89	128	140	133	124	118	127	134	130	124	119	113	120	147	156	145	133	190	224	212	218	110	118
June	89	128	140	134	125	120	126	136	130	125	118	113	122	149	160	147	132	169	226	214	216	109	117
July	89	128	139	134	125	120	127	136	129	125	118	114	122	149	162	148	130	190	229	217	218	108	116
Aug.	89	128	140	134	125	120	126	137	129	126	118	115	119	150	165	149	131	191	231	220	224	107	117
Sept.	89	128	140	134	125	120	128	138	130	126	118	116	121	151	165	150	130	190	232	220	224	108	118
Oct.	89	128	140	134	124	121	128	138	129	127	116	116	122	152	166	149	129	192	232	221	220	109	119
Nov.	89	128	140	134	124	122	129	140	129	127	116	117	121	153	167	150	128	194	234	221	222	110	118
Dec.	89	129	139	135	125	123	130	140	127	128	116	118	118	154	167	151	128	193	234	224	221	110	118
Jan.	90	128	139	135	123	124	130	142	127	128	118	118	119	155	167	151	128	197	236	228	222	110	119
Feb.	90	128	138	135	123	125	130	142	127	129	118	119	120	156	168	150	127	193	247	235	231	110	118
Mar.	90	129	139	135	123	126	130	143	128	129	117	119	120	158	167	150	126	194	242	236	227	110	118
Apr.	90	128	138	136	121	125	130	144	129	130	118	120	119	159	168	150	126	191	239	236	225	110	117
May	90	129	140	135	121	127	130	145	130	130	117	120	122	159	169	149	126	194	238	231	227	111	118
June	90	129	140	136	122	126	130	146	131	130	117	121	121	161	169	150	125	192	234	234	221	108	117
July	90	129	140	136	122	128	131	146	131	130	116			161	169	148	125	192	234	236	223	109	117
Aug.	90	128	139			128			129	129	115					145	126	192	232	237	224		
Growth Rates, Percent																							
Apr.	89	4	5	3	-1	6	7	8	3	6	1	1	0	6	7	13	3	5	8	5	6	-1	5
May	89	3	4	4	0	4	7	8	4	5	0	0	2	5	3	11	5	7	7	4	5	0	6
June	89	2	2	2	1	6	5	8	3	5	-1	1	4	7	6	12	4	5	9	4	4	-2	5
July	89	2	1	3	1	5	5	8	0	5	-1	2	3	6	7	11	0	5	8	6	2	-4	2
Aug.	89	2	2	3	1	5	3	6	0	5	-1	3	0	7	10	11	2	5	9	8	7	-5	3
Sept.	89	1	1	3	1	4	5	8	2	5	-3	4	1	6	9	10	0	4	9	7	6	-3	4
Oct.	89	1	1	2	0	4	5	7	-1	5	-4	5	4	6	8	8	-1	5	7	7	2	-1	5
Nov.	89	1	1	2	-1	5	5	8	-1	4	-5	6	2	7	8	7	-3	6	6	5	3	1	5
Dec.	89	1	0	2	0	6	6	7	-3	5	-4	7	-3	7	7	7	-4	4	7	8	1	1	3
Jan.	90	0	0	2	-2	7	5	8	-3	4	-1	6	-2	8	6	6	-4	7	7	10	2	2	3
Feb.	90	1	-2	2	-2	8	5	8	-3	4	-1	6	-1	8	5	4	-4	3	15	15	10	1	1
Mar.	90	1	-1	2	-2	8	4	8	-2	4	-1	6	0	8	5	2	-5	2	9	14	5	2	0
Apr.	90	0	-2	2	-5	6	3	8	0	5	0	6	-2	9	4	1	-5	-1	5	12	2	1	-2
May	90	1	0	1	-4	7	3	8	1	4	-1	5	3	8	5	0	-4	2	3	7	4	4	0
June	90	2	0	1	-3	5	2	7	3	4	-1		0	8	4	1	-5	-1	8	-2	-2	-2	
July	90	1	1	1	-3	7	3	7	4	3	-2			8	2	-2	-4	-1	-1	8	0	0	-1
Aug.	90	0	-1			7			0	2	-3					-6	-3	-1	-3	7	1		
Ten Year Annual Growth Rate, Percent																							
1976-86		3	3	3	3	2	2	2	2	2	2	2	2	4	4	3	3	8	8	7	7	2	2